

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Cadillac-Wexford Public Library	County Wexford
Audit Date 12/31/04	Opinion Date 1/27/06	Date Accountant Report Submitted to State: 2/22/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.			
Street Address 134 West Harris Street		City Cadillac	State MI
Accountant Signature 		ZIP 49601	Date 2/2/06

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)
REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

YEAR ENDED DECEMBER 31, 2005

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2005

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

January 27, 2006

INDEPENDENT AUDITORS' REPORT

To The Members of the Board
Cadillac-Wexford Public Library
(A Component Unit of Wexford County)
Cadillac, Michigan

We have audited the accompanying basic financial statements of Cadillac-Wexford Public Library, Cadillac, Michigan, as of and for the year ended December 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Cadillac-Wexford Public Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Cadillac-Wexford Public Library as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-6 and budgetary comparison information on page 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2005

Cadillac-Wexford Public Library, a Public Library located in Wexford County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Cadillac-Wexford Public Library's administration's discussion and analysis of the financial results for the fiscal year ended December 31, 2005, along with specific comparative information as required.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

C. Summary of Net Assets

The following schedule summarizes the net assets at December 31:

	<u>2005</u>	<u>2004</u>
Assets		
Current Assets	\$ 1,144,160	\$ 1,071,891
Non Current Assets		
Capital Assets	\$ 2,604,291	\$ 2,495,703
Less Accumulated Depreciation	(2,066,050)	(1,892,934)
Total Non Current Assets	\$ 538,241	\$ 602,769
Total Assets	\$ 1,682,401	\$ 1,674,660

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2005

Liabilities

Current Liabilities	\$	45,786	\$	46,121
Non Current Liabilities		81,103		105,971
		<hr/>		
Total Liabilities	\$	126,889	\$	152,092

Net Assets

Invested in Capital Assets Net of Related Debt	\$	496,104	\$	539,231
Restricted for Tustin Public Library		15,053		12,671
Unrestricted		1,044,355		970,666
		<hr/>		
Total Net Assets	\$	1,555,512	\$	1,522,568

D. Analysis of Financial Position

During the fiscal year ended December 31, 2005, the Library's net assets increased by \$32,944. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended December 31, 2005, \$191,308 was recorded for depreciation expense.

2. Capitalized Acquisitions

For the fiscal year ended December 31, 2005, \$131,561 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, current year disposals and the current year's depreciation is a decrease to capital assets in the amount of \$64,528 for the fiscal year ended December 31, 2005.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2005

E. Results of Operations

For the fiscal years ended December 31, the results of operations were:

	<u>2005</u>	<u>2004</u>
General Revenues		
Property Taxes	\$ 600,514	\$ 564,413
Investment Earnings	17,989	6,568
State Sources	279,129	256,286
Gain (Loss) on Disposal of Capital Assets	(4,781)	0
Other	<u>33,793</u>	<u>586</u>
Total General Revenues	<u>926,644</u>	<u>827,853</u>
Program Revenues		
Charges for Services	3,710	4,560
Operating Grants	<u>9,000</u>	<u>2,180</u>
Total Program Revenues	<u>12,710</u>	<u>6,740</u>
Total Revenues	<u>939,354</u>	<u>834,593</u>
Expenses		
General Government	<u>906,410</u>	<u>867,654</u>
Change in Net Assets	<u>\$ 32,944</u>	<u>\$ (33,061)</u>

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The Library levies .6805 mills of property taxes for operations.

For 2005, the Library recognized \$600,514 of property tax revenue.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2005

2. State Sources

The majority of the state sources is comprised of penal fines received from Wexford and Osceola Counties. The Library collected \$246,390 in penal fines for 2005.

3. Operating Grants

The Library funds a portion of its operations with grants. For the fiscal year ended December 31, 2005, federal, state, and other grants accounted for \$41,739.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on January 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on December 31.

For 2005, the Library amended the general fund budget in June and December 2005. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance With Final Budget
Total Revenues	\$892,900	\$908,442	\$909,977	\$ 1,535
Total Expenditures	892,900	877,900	872,113	5,787
Total	\$ 0	\$ 30,542	\$ 37,864	\$ 7,322

The variance in the Total Revenues Original Budget to Final Budget was an increase of \$15,542.

The variance in the Total Expenditures Original Budget to Final Budget was a decrease of \$15,000.

H. Capital Assets

At December 31, 2005, the Library had \$2,604,291 in capital assets, including leasehold improvements and equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$191,308 bringing the accumulated depreciation to \$2,066,050 as of December 31, 2005.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2005

I. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from property taxes and penal fines, any impairment to these funding sources would greatly impact the future of the Library.

J. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Cadillac-Wexford Public Library, 411 S Lake Street, Cadillac, MI 49601.

CADILLAC WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS

DECEMBER 31, 2005

ASSETS

CURRENT ASSETS

Cash	\$ 522,653
Receivables	
Accounts	232
Taxes	615,183
Prepaid Expenses	6,092
Total Current Assets	<u>1,144,160</u>

NON CURRENT ASSETS

Capital Assets	2,604,291
Less Accumulated Depreciation	<u>(2,066,050)</u>
Total Non Current Assets	<u>538,241</u>
TOTAL ASSETS	<u>\$ 1,682,401</u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 8,541
Accrued Wages	16,187
Current Portion of Non -Current Liabilities	<u>21,058</u>
Total Current Liabilities	<u>45,786</u>

NON CURRENT LIABILITIES

Compensated Absences	60,024
Capital Lease Payable	42,137
Less: Current Portion	<u>(21,058)</u>
Total Non Current Liabilities	<u>81,103</u>

Total Liabilities	<u>\$ 126,889</u>
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NET ASSETS

Invested in Capital Assets Net of Related Debt	496,104
Restricted For Tustin Public Library	15,053
Unrestricted	<u>1,044,355</u>
Total Net Assets	<u>\$ 1,555,512</u>

The notes to the financial statements are an integral part of this statement.

CADILLAC WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR		ACTIVITIES
		SERVICES	GRANTS	NET (EXPENSES)
				REVENUES AND
				CHANGES IN
				NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
General Government	\$ 906,410	\$ 3,710	\$ 9,000	\$ (893,700)
<u>GENERAL REVENUES</u>				
Property Taxes				600,514
Interest				17,989
State Sources				279,129
Gain (Loss) on Disposal of Capital Assets				(4,781)
Other				33,793
Total General Revenues				926,644
Change in Net Assets				32,944
<u>NET ASSETS</u> - Beginning of Year				1,522,568
<u>NET ASSETS</u> - End of Year				\$ 1,555,512

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

GENERAL FUND

BALANCE SHEET

DECEMBER 31, 2005

ASSETS

Cash	\$	522,653
Receivables		
Accounts		232
Taxes		615,183
Prepaid Expenses		6,092
		<hr/>
TOTAL ASSETS	\$	<u><u>1,144,160</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$	8,541
Accrued Wages		16,187
Deferred Revenue		615,183
		<hr/>
Total Liabilities	\$	<u><u>639,911</u></u>

FUND BALANCE

Reserved for Tustin Public Library:	\$	15,053
Unreserved		
Designated for:		
Memorials		36,695
Sick and Vacation		30,000
Building Maintenance		150,000
Improvements and Expansion		100,000
Retirement		32,000
Equipment Upgrades		20,000
Undesignated		120,501
		<hr/>
Total Fund Balance	\$	<u><u>504,249</u></u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>1,144,160</u></u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

DECEMBER 31, 2005

Total General Fund Balance		\$	504,249
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			
The cost of the capital assets is	2,604,291		
Accumulated depreciation is	<u>(2,066,050)</u>		538,241
Other assets are not available to pay for current period expenditures and therefore are not reported in the funds			
Taxes Receivable			615,183
Long term liabilities are not due and payable in the current period and are not reported in the funds			
Capital Lease Payable			(42,137)
Compensated Absences			<u>(60,024)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u><u>1,555,512</u></u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND

YEAR ENDED DECEMBER 31, 2005

REVENUES

Taxes

Wexford County

Current Property Tax \$ 530,035

Industrial Facilities Tax 9,076

Osceola County

Current Property Tax 27,245

State Sources

Library State Aid 32,739

Library Penal Fines

Wexford County 229,406

Osceola County 16,984

Charges for Services

Copy Machine Receipts 3,710

Fines and Forfeits

Library Book Fines 11,764

Interest and Rents

Interest 17,989

Other Revenues

American Library Association Grant 4,000

SBC Foundation Grant 5,000

Contributions and Donations from Private Sources 630

Refunds and Rebates 21,274

Miscellaneous 125

Total Revenues \$ 909,977

EXPENDITURES

Culture and Recreation

Personal Services

Salaries and Wages

Tustin Library \$ 26,260

Cadillac-Wexford Public Library 400,271

Employee Benefits

Payroll Taxes

Tustin Library 1,929

Cadillac-Wexford Public Library 29,405

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND

YEAR ENDED DECEMBER 31, 2005

Fringe Benefits	
Tustin Library	6,941
Cadillac-Wexford Public Library	60,840
Supplies	
Tustin Library	1,000
Cadillac-Wexford Public Library	23,730
Other Services and Charges	
Audit	3,995
Data Processing	5,640
Consulting Services	24,000
Legal	300
Insurance	
Cadillac-Wexford Public Library	7,946
Telephone	
Tustin Library	439
Cadillac-Wexford Public Library	12,389
Board of Directors	3,393
Travel and Education	8,340
Dues, Publications, and Fees	1,599
Utilities	23,804
Repair and Maintenance	23,592
Rental Expense	32,425
State Aid - Membership	14,260
Computer Software	5,423
Miscellaneous Expense	1,740
Capital Outlay	
Equipment	
Cadillac-Wexford Public Library	22,427
Books	
Tustin Library	6,816
Cadillac-Wexford Public Library	123,209
Total Expenditures	<u>\$ 872,113</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 37,864
<u>FUND BALANCE</u> - Beginning of Year	<u>466,385</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 504,249</u></u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2005

Net change in General Fund Balance	\$ 37,864
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(191,308)
Capital Outlay	131,561
Repayments of principal on long term debt is an expenditure in the general fund, but not in the statement of activities (where it is a reduction of liabilities).	21,401
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balance by the cost of the capital assets sold net of accumulated depreciation.	(4,781)
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Taxes Included in Deferred Revenue - Beginning of Year	(581,025)
Taxes Included in Deferred Revenue - End of Year	615,183
Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental	
Compensated Absences - Beginning of Year	64,073
Compensated Absences - End of Year	(60,024)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 32,944</u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Cadillac-Wexford Public Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

A. Reporting Entity

The Cadillac-Wexford Public Library provides library services to the Wexford County area from its facilities located in Cadillac. The Library is also responsible for operating the Tustin and Mesick Libraries, along with providing salaries and fringe benefits to the Manton and Buckley Libraries. The Library board consists of eleven members, five of whom are appointed by the City of Cadillac and six who are appointed by Wexford County. As such, the Library is considered to be a component unit of Wexford County.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental funds include the following fund type:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Library is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- i. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- ii. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- iii. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- iv. Repurchase agreements consisting of instruments listed in (i).
- v. Banker's acceptances of United States banks.

CADILLAC-WEXFORD PUBLIC LIBRARY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

- vi. Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than one standard rating service.
- vii. Mutual funds registered under the Investment Company Act of 1940, title I of chapter 686, 54 Stat. 789 15 U.S.C. 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the Library. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- viii. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- ix. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.118.

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	7 years
Furniture and Fixtures	10 years
Equipment	5 years
Leasehold Improvements	20 years

The Library's policy is to capitalize all books plus individual amounts exceeding \$500 for computer equipment and \$1,000 for all other items.

3. Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

6. Fund Balance

In the financial statements, the unreserved fund balance for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Director of the Library annually prepares an operating budget taking into consideration the recommendations of the board. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.

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3. All transfers of budget amounts above a certain preauthorized limit between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board. Two budget amendments was made during the year.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON GENERAL FUND

A. Deposits and Investments

The Library's deposits are on deposit with Fifth Third Bank Northwestern Bank and Firstbank.

Investment rate risk. The Library will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Library's cash requirement.

Foreign currency risk. The Library is not authorized to invest in investments, which have this type of risk.

Credit risk. The Library will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Library's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Library will do business in accordance with the Library's investment policy.

Concentration of credit risk. The Library will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2005, \$318,868 of the library's bank balance of \$539,094 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Library held no investments.

B. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance			Balance	
	January 1, 2005	Additions	Deletions	December 31, 2005	
Capital assets:					
Books	\$ 2,108,792	\$ 114,656	\$ 22,973	\$ 2,200,475	
Furniture and Fixtures	202,793	3,847	0	206,640	
Equipment	182,532	13,058	0	195,590	
Leasehold Improvements	1,586	0	0	1,586	
Subtotal	\$ 2,495,703	\$ 131,561	\$ 22,973	\$ 2,604,291	
Accumulated depreciation	(1,892,934)	(191,308)	(18,192)	(2,066,050)	
Net capital assets	\$ 602,769	\$ (59,747)	\$ 4,781	\$ 538,241	

Depreciation for the fiscal year ended December 31, 2005 amounted to \$191,308.

C. Property Taxes and Deferred Revenue

The Library receives revenue from a countywide library millage on the December tax roll. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended December 31, 2005, the Library levied the following amount per \$1,000 of taxable valuation.

<u>PURPOSE</u>	<u>MILLS</u>
Operating	\$.6805/\$1,000

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Substantially all of the taxes raised by this millage are not received by the Library until the following year.

D. Debt

A summary of the Debt transactions for the Library for the year ended December 31, 2005, is as follows:

	<u>CAPITAL LEASE</u>	<u>COMPENSATED ABSENCES</u>
Debt at January 1, 2005	\$ 63,538	\$ 64,073
New Liabilities	0	0
Liabilities Retired	<u>(21,401)</u>	<u>(4,049)</u>
Total Debt	42,137	60,024
Less Amounts Classified as Current	<u>(21,058)</u>	0
Long-Term Debt at December 31, 2005	<u>\$ 21,079</u>	<u>\$ 60,024</u>

At December 31, 2005, the Library's Debt consisted of the following:

Capital Lease Payable – Due in monthly installments of \$2,018 through November 2007, interest rate 10.43%	\$ 41,898
Capital Lease Payable – Due in monthly installments of \$240 through December 2005, interest rate 0%	239
Compensated Absences	<u>60,024</u>
TOTAL DEBT	<u>\$ 102,161</u>

The annual requirements to amortize all debt outstanding as of December 31, 2005, including interest payments of \$4,508 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2006	\$ 21,058	3,393	24,451
2007	<u>21,079</u>	<u>1,115</u>	<u>22,194</u>
	\$ 42,137	\$ 4,508	\$ 46,645
Less: Interest			<u>(4,508)</u>
			\$ 42,137
Compensated Absences			<u>60,024</u>
TOTAL DEBT			<u>\$ 102,161</u>

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The annual requirement to amortize the accrued compensated absences is uncertain because it is unknown when the employees will use the leave.

E. Compensated Absences Liability

Employees of the Library are entitled to paid vacation and paid sick days depending on job classification, length of service and other factors. At December 31, 2005, the accrued expense for compensated absences was \$60,024.

F. Fund Balance Reserved and Designated

Fund Balance Designated for Memorials accounts for gifts to the library. Sometimes the donor of a gift designates that the money be spent on a particular item, others do not assign an expenditure to their gift. Gifts not held for a particular purpose are used for library improvement.

Fund Balance Reserved for Tustin accounts for the portion of fund balance created by Tustin Library related revenues in excess of expenditures.

IV. OTHER INFORMATION

A. Building Leases

The building in which the Library is located is owned by the City of Cadillac. The City leases the building to the Library at a cost of \$1 a year. The Mesick facility is located in a building owned by Springfield Township and is leased at a cost of \$1 a year.

B. Equipment Leases

Capital Lease - The Library has entered into two lease agreements as lessee for financing the acquisition of computer and copy machine equipment. A \$1 purchase option exists at the end of the leases. These leases qualify as capital leases for accounting purposes.

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The future minimum lease obligations of these minimum lease payments as of December 31, 2005 are as follows:

Year Ending December 31,	
2006	24,451
2007	<u>22,194</u>
Total minimum lease payments	\$ <u>46,645</u>

Computer equipment and related accumulated depreciation under capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Equipment	\$ 88,608
Less: accumulated depreciation	<u>(19,681)</u>
Total	<u>\$ 68,927</u>

Depreciation of leased equipment under capital assets is included in depreciation expense.

C. Retirement Commitments

The Library's employees are participants in the Michigan Municipal Employees Retirement System (MERS) through the City of Cadillac. This is an agent multiple-employer defined benefit pension plan administered by the State of Michigan. Separate information on funding status and progress for the Library's employees is not available. Complete pension disclosures for the entire plan can be found in the comprehensive annual financial report of the City of Cadillac. Copies of the report are available at the Cadillac Municipal Complex and the Cadillac-Wexford Public Library.

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D. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool member's covered loss exceeds the pools limits, all further payments become the sole obligation of the member. The Library has not been notified of any shortfalls in the pools for the current or previous three years.

E. Collections of Works of Art and Historical Treasures

The Library, over the years, has received contributions from patrons for such items as butterfly collections and rare books. The Library considers these items to be of an intangible nature, and is unable to place a cost on the items. Therefore, the items are not shown on these financial statements, and accordingly, no depreciation expense has been recorded on these items.

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED DECEMBER 31, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Taxes	\$ 571,300	\$ 563,500	\$ 566,356	\$ 2,856
State Grants	296,600	294,600	279,129	(15,471)
Charges For Services	6,000	4,200	3,710	(490)
Fines and Forfeits	10,000	10,000	11,764	1,764
Interest and Rents	7,500	7,500	17,989	10,489
Other Revenues	1,500	28,642	31,029	2,387
Total Revenues	\$ 892,900	\$ 908,442	\$ 909,977	\$ 1,535
EXPENDITURES				
Culture and Recreation				
Personal Services	\$ 550,640	\$ 508,550	\$ 525,646	\$ (17,096)
Supplies	21,000	21,000	24,730	(3,730)
Other Services and Charges	169,860	177,950	169,285	8,665
Capital Outlay	151,400	170,400	152,452	17,948
Total Expenditures	\$ 892,900	\$ 877,900	\$ 872,113	\$ 5,787
Excess (Deficiency) of Revenues Over Expenditures	\$ 0	\$ 30,542	\$ 37,864	\$ 7,322
<u>FUND BALANCE</u> - Beginning of Year	347,108	286,292	466,385	180,093
<u>FUND BALANCE</u> - End of Year	\$ 347,108	\$ 316,834	\$ 504,249	\$ 187,415